

Message Text

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E.O. 11652: GDS

TAGS: HU, ECON, PFOR, PINT

SUBJECT: QUARTERLY REPORT ON MAJOR POLITICAL AND
ECONOMIC TRENDS

REF: A) STOESEL - PEDERSEN LETTER

B) BUDAPEST 3989

1. IN TELEGRAM TO FOLLOW WE CONVEY OUR RESPONSE TO
STOESEL - PEDERSEN LETTER RE FIRST QUARTERLY ANALYSIS
OF TRENDS IN US-HUNGARIAN RELATIONS. THAT TELEGRAM
GIVES OUR ANALYSIS AND THINKING ON GOH INTERNAL POLITICAL,
TRADE RELATIONS, FOREIGN POLICY, AND PARTY LEADERSHIP.
FOL ARE OUR PRINCIPAL CONCLUSIONS.

2. REFORMIST INTERNAL POLICIES. POLICY - DIRECTED
AMELIORATION OF LIFE IN HUNGARY TOWARD ONE LESS
INCOMPATIBLE WITH OURS IN HUNGARY'S MAIN CLAIM TO
SYMPATHETIC ATTENTION FROM THE US. THE POLICY OF NEW
ECONOMIC MECHANISM (NEM), WHICH BROUGHT MOST OF THIS
AMELIORATION ABOUT BY CREATING A MORE MARKET-ORIENTED
ECONOMY, WILL CONTINUE. CHANGES BEING MADE IN IT ARE DESIGNED
TO MAKE IT FUNCTION MORE EFFECTIVELY, AND
ARE NOT DETRIMENTAL TO ITS MAIN THRUST. IN SOCIAL AREAS
RECENTLY INCREASED IDEOLOGICAL SENSITIVITY IN HUNGARY
WILL HAVE A NEGATIVE BUT NOT PRECLUSIVE EFFECT ON OUR
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EXCHANGES IN SOCIAL SCIENCE AREAS, BUT SCIENTIFIC AND

ECONOMIC EXCHANGES WILL CONTINUE TO EXPAND.

3. TRADE - IMPROVED TRADE RELATIONS WITH WEST AND BECAUSE OF OUR TECHNOLOGY WITH US, WILL CONTINUE TO BE A MAJOR HUNGARIAN GOAL. EXTENSION OF MFN IS REGARDED BY HUNGARIAN LEADERS AS THE KEY ELEMENT IN IMPROVING OUR RELATIONS. THEY HAVE REACTED WITH DISAPPOINTMENT TO RECENT CONGRESSIONAL ACTIONS, THOUGH MORE MILDLY THAN WE HAD ANTICIPATED. IF MFN IS NOT ENACTED ON POLITICALLY VIABLE TERMS HERE THERE WILL BE A GENERAL SLOWDOWN IN TREND TOWARD IMPROVED RELATIONS AND PRESENTLY SUBMERGED ISSUES WILL COME TO FORE. CROWN OF ST. STEPHAN - THEIR SECOND MOST IMPORTANT ISSUE - WOULD BE AMONG THEM. TRADE WILL INCREASE EVEN WITHOUT MFN, BECAUSE NEEDS OF HUNGARIAN ECONOMY REQUIRE IT.

4. FOREIGN POLICY - HUNGARY'S SLAVISH DEVOTION TO SOVIET FOREIGN POLICY IS PRICE IT PAYS TO MAKE ITS RELATIVE FREEDOM IN INTERNAL POLICY POSSIBLE. THERE HAS BEEN NO CHANGE IN THIS IN LAST FEW MONTHS AND WE FORESEE NONE. ITS LACK OF IMPARTIALITY IN VIETNAM - MOST SERIOUS IRRITANT IN OUR RELATIONS - STEMS FROM THIS POLICY. IT CREATES MORE DIFFICULTIES FOR US IN VIETNAM THAN DOES POLAND. WE ARE SEEKING TO CHANGE THIS BUT DESPITE INTENSIVE EFFORTS ON OUR PART THIS FALL THERE HAS BEEN LITTLE OR NO CHANGE IN GOH BEHAVIOR. GOH OFFICIALS ARE SENSITIVE, HOWEVER, TO BEING COMPARED WITH POLAND AND ONE OF EMBASSY'S PRIME OBJECTIVES OVER NEXT FEW MONTHS WILL BE TO BRING ABOUT A LESS OBSTRUCTIVE POSITION ON VIETNAM. HUNGARIAN POLICY, NEVERTHELESS, SUPPORTS A PEACEFUL SOLUTION AND OPPOSES A MILITARY ONE IN THE AREA - A POLICY WE BELIEVE TO BE DIRECTED TOWARDS BOTH SIDES. IF THERE WERE A FLAGGING ON DETENTE WE BELIEVE HUNGARY WOULD USE WHATEVER INFLUENCE IT HAS ON USSR TO MAINTAIN DETENTE WHICH GIVES IT GREATER FREEDOM OF ACTION.

5. PARTY LEADERSHIP - COMMUNIST PARTY AND KADAR REMAIN IN FIRM

CONTROL OF AFFAIRS AND WE HAVE NO EVIDENCE OF SERIOUS DIFFERENCES WITHIN LEADERSHIP. WE WILL BE WATCHING FORTHCOMING PERSONNEL
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CHANGES TO ANALYZE WHAT IMPLICATIONS THEY MAY HAVE ON FUTURE COURSE OF HUNGARY'S REFORMIST POLICIES.
PEDERSEN

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